DESIGN SENSE®

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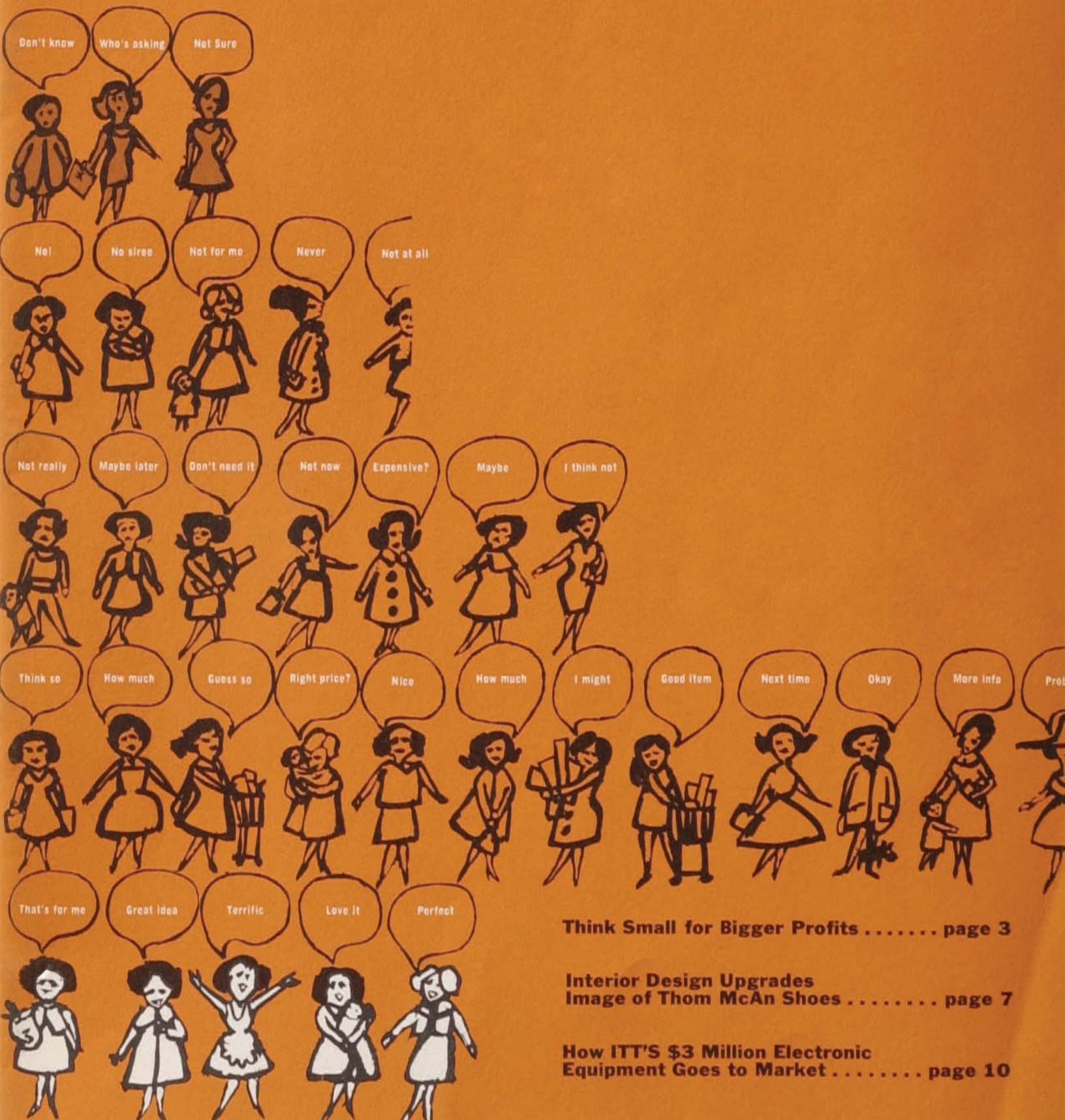

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Interior Design Upgrades Image of Thom McAn Shoes . . . . . page 7

How ITT'S $3 Million Electronic Equipment Goes to Market . . . . . page 10

The manufacturer who sees the mass market for his product as one homogenous consumer group is missing many opportunities. There are many stratifications within the mass market. And usually a substantial segment of the total market is eager to pay more for better quality. These are the "influentials" — the taste leaders of every community.

L&M

DESIGN SENSE 27

THINK SMALL FOR BIGGER PROFITS

Is there room for a Rambler or Sara Lee success story today? L&M discusses how giant corporations can achieve such success with new thinking 3

CAN STORE INTERIORS UPGRADE A PRODUCT?

Yes, says Thom McAn, whose new store in Maryland proved within two months that design of the store can certainly increase product image 7

HOW ITT EQUIPMENT GOES TO MARKET

To what extent is styling a factor in the sale of multi-million electronic equipment? Here is an analysis of ITT's ADX System marketing 10

What is the mass market?

Is it a uniform, unified and homogenous consumer group? Or, is it a compilation of many individuals who fall into a number of special groups within the mass market?

If you agree with the latter view, you can begin to experiment with the "think small" approach to increased profits. You will see that there may well be a mass market, albeit a smaller one than the total, for a higher quality version of your existing product line. You may begin to take issue with the massive sales goals customary for your established line, but unsuitable for a high-quality product.

Because we believe that the "think small" approach holds promise of new profit opportunities, we urge you to read the discussion of this concept starting on page 3.

We had planned to bring you in this issue an up-to-date report on the new legislation and regulations controlling packaging. Indeed, as we had pointed out in a recent *Wall Street Journal* interview, we find companies leaning over backward in their packaging decisions to avoid FDA or FTC difficulties.

Unfortunately, multiple Washington interviews did not produce the guidelines we were seeking. We are therefore postponing the analysis of the new FDA and FTC regulations for a future issue when the Government makes known the regulations it wants manufacturers to obey.

NEW TWIST OFF CAP
Louis Sherry
DIETETIC JELLY
CONCORD
GRAPE
ARNOLD
Brick Oven
White
20 SLICES
ARNOLD
Brick Oven
White
KING
SANO
TAYLOR
NEW YORK STATE
Tawny
Port
WINE

Is there a market for a higher-priced, higher-quality product? L&M maintains that there is. It's the product that will never dominate the total market for that category of products, nor will it have massive sales goals. But it can certainly produce handsome profits for the manufacturer who is willing to think small in terms of his overall market and sales goals.

THINK SMALL FOR BIG PROFITS

Ask the president of any corporation what he considers the prime corporate goal, and he will answer, "Profits."

Yet, despite unanimous agreement in the business community about this ultimate goal, the approaches toward its fulfillment vary as greatly as the many products the corporate community sells on the American marketplace.

To explore some of these differing marketing philosophies, DESIGN SENSE interviewed a cross-section of leading U.S. business statesmen. The findings: An astounding number of corporate executives in some of the giants of U.S. industry still equate profits with sales volume.

What then are the principal marketing avenues these corporate giants take in their search for profits? In broad strokes, they can be reduced to three basic concepts, according to Lippincott & Margulies, Inc.'s analysis:

- The "tonnage" approach, aimed at developing a new mass market for a product.
- A "play-it-safe" philosophy, intended to capitalize upon the existence of a mass market.
- The "think small" concept, carving out a limited or specialized segment of the mass market.

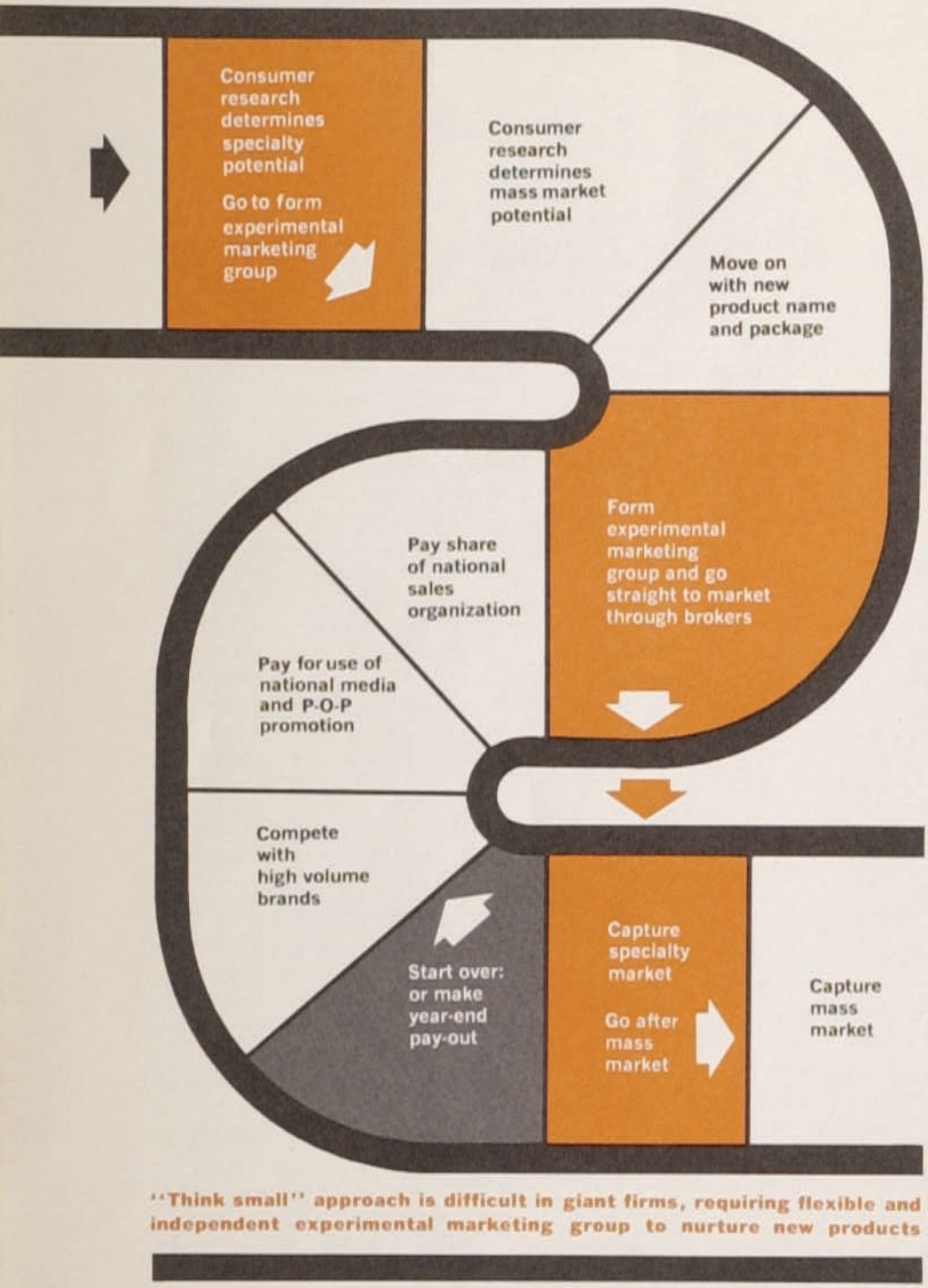
In order to explode the myth that "sales equal profits," L&M has selected the "think small" approach toward bigger profits as a challenging new route to success worthy of detailed exploration.

In their entire approach to new product development, the majority of the corporate giants seem to subscribe to the first two concepts, either thinking big with a new mass market as the product target, or plunging into an established mass market with an improved version of an existing product. Certainly success stories abound as testimonials to these two marketing philosophies. Proctor & Gamble's Tide, the first all-purpose detergent, became leader in the new field through this "tonnage" approach.

However, the question is raised: Does a corporation need to dominate the entire mass market for a particular product category in order to turn in a handsome profit?

The answer, obviously, is "No." Certainly such outstanding successes from a corporate profit viewpoint as Sara Lee, Rambler and Pepperidge Farm, to cite just a few, make a good case for this "think small" philosophy. In each of these instances, the manufacturer isolated a particular segment of the total food or car market as his particular target, and then planned his product — in terms of quality, pricing and presentation — to appeal to this segment.

HOW THE NEW "THINK SMALL" PRODUCT CAN REACH ITS MARKET SUCCESSFULLY


Consumer research determines specialty potential
Go to form experimental marketing group
Consumer research determines mass market potential
Move on with new product name and package
Form experimental marketing group and go straight to market through brokers
Pay share of national sales organization
Pay for use of national media and P-O-P promotion
Compete with high volume brands
Start over: or make year-end pay-out
Capture specialty market
Go after mass market
Capture mass market

"Think small" approach is difficult in giant firms, requiring flexible and independent experimental marketing group to nurture new products

Sophisticated corporate management in varying industries is beginning to understand that its traditional "tonnage" concept toward new products may have its limitations. It certainly involves a proportionately greater risk of capital, often for a lower return. Indeed, one international chemical giant recently put these findings down on paper and reduced its newly determined "think small" approach to a challenging mathematical and marketing formula:

This company analyzed the curve of product life cycles as these relate to profits. It determined the point in the maturing process when profits from sale of new products slow down. Shortly before reaching this profit plateau when competition or other new products limit the potential, the product usually travels up sharply on the profit curve. In that time, while it dominates its market it can pay back handsomely on the original investment.

The company's conclusion: Spin off these subsidiaries which have reached a profit plateau, and concentrate the bulk of the management and corporate effort on new product development and the nurturing of products just beginning to mature.

This foresighted approach squarely flaunts the management tradition that has plagued some of the corporate giants, most of whom tend to concentrate upon the mature and established product lines, while relegating the small new products with high-profit potential to the care of younger and often less experienced product managers.

Indeed, the president of one of America's food giants recently told L&M: "Sometimes I think we (giants) act like a mother pig who birthes her litter, then rolls over and kills most of the piglets."

Does this admission indicate that the "think small" approach to corporate

profit is suitable only for the new or struggling business? Is the giant corporation doomed to invest mammoth sums in order to realize its fair share of profit?

Not necessarily. Yet look at the conditions that maintain in the consumer product field, for instance. Certainly, the package food giants can easily find hundreds of new products with a good profit potential. But management feels it has to turn most of them down because of the massive predetermined sales and production goals under which the company operates.

It was the national sales organization which was the culprit in this recent product demise: A major food processor in the dry foods line had brought out a new salad dressing that was unique in the country and had excellent initial acceptance among that top segment of the mass market which is willing to pay a little extra for better quality. However, by definition, that market was destined to remain limited. The product merited only one facing on the shelf. Profit from sales was good, but there was certainly no major sales volume incentive for the sales force.

The upshot? Within six months of national introduction, the company withdrew this salad mix. Both store managers and consumers protested. And, as a matter of fact, some store managers, troubled by the handful of disappointed consumers who kept asking for the product, suggested the company might do better to withdraw some of its regular line of products, which, because of competition, produced a far lower profit margin for the store keepers and the corporation than the salad mix. But the sales structure of the giant mitigated against any smaller volume item in the line.

What actually happens inside the giant corporation when a new product is born? At the beginning, the new baby gets the full treatment, adequate research and development, a good starting budget, and product manager devotion to nurture it along and sell top management on its profit potential. Usually, the charges against this product in this developmental stage don't become a liability against it. So, the product sails.

It is testmarketed in Syracuse, Columbus or Des Moines, and everybody is happy. Then the product goes national. Now the problem starts. As soon as the product gets national media support, national sales organization effort, it is hit with an override from the total corporation, and the profit is now eaten away. Furthermore, since it does not yet have volume sales comparable to the other nationally distributed products, it receives less attention from the national sales organization. Add to this some companies' insistence on a one-year pay-out, and our new baby is in trouble.

What is the alternative to this unhappy situation?

One approach to making the "think small" concept work for the giant corporation is the creation of an experimental marketing group within the corporate structure.

The new product development vice president of a paper giant puts his formula for maximizing profits this way:

"We often find our key to success in building a small and flexible organization within the total corporate structure. When we introduce a new product, we want to avoid the inertia of the parent company which is accustomed to big-scale production and marketing.

"The giant corporation often has better planning tools for making safer new product decisions. But it is usually hindered from carrying the plans out successfully once they are formulated. For these marketing purposes, the giant structure is too committee-ridden and cumbersome; too accustomed to large-scale thinking; excessively geared to multi-million sales volumes to understand that a high rate of return on the investment dollar may be infinitely more advantageous than astronomical sales figures."

Assuming then that the "think small" concept does hold promise of profits through new product development, where are today's new opportunities? Can today's highly competitive economy support another Rambler, Sara Lee or Pepperidge Farm success story?

L&M maintains that this opportunity and challenge does indeed exist in a number of fields traditionally geared to mass-production and mass-marketing psychologies. Today the consumer has a wide choice of brands in many product categories, but in food, for instance, she does not have a wide choice of quality: Where can she buy a really fine quality canned stew? Note the success of several Colombian coffee brands as one proof of the new opportunities in grocery products.

Now take as an example the total market for frozen meat pies and analyze it. Is it not conceivable that one out of 20 persons who buy this product would be willing and eager to spend a little more for a higher-quality frozen meat pie than those currently available at the popular prices? And, indeed, a number of consumers who do not buy this product in its current form may well be converted to the better-quality product. Did Sara Lee and Pepperidge Farm not attract some people who previously bought fresh bakery products only?

Nor does the objection that distribution is hard to come by hold water today. Some of the most spectacular growth among supermarket chains in recent years has occurred in those chains whose management has understood the need for providing for consumer taste variety and a broad price

HOW A CORPORATION CAN THINK SMALL AND EARN BIGGER PROFITS

1. Analyze the total market not only in terms of the existing product qualities and price ranges, rather, research creatively to determine possible demand for improved and different products, willingness to break through price barriers: Perhaps there are people who would pay more for a better-quality frozen meat pie, just as they were willing to pay more for Sara Lee cakes.

2. Develop profit goals as well as sales targets while the new product is in the developmental stage. If these profit goals, when well researched, measure up favorably with the corporate average, encourage the new product even if it will never reach a massive sales volume. A line of specialty products can yield good profits too.

3. Put an experimental marketing team in charge of the new product, to avoid throwing it into competition with the mass-selling items in the established line. Let a seasoned, experienced marketing man head up this group, rather than relegating it to the youngest product manager. Provide an adequate research and development budget for the product and let the marketing team function freely.

4. Include a full-time sales manager on the team in charge of the new special-market product, rather than putting this product in with your established line. Let the sales manager sell through brokers working with them full-time. If this product is aimed at only a segment of the mass market, it would not receive adequate attention from your national sales organization.

5. Let the experimental marketing team develop all the marketing, sales and advertising strategy independent from your mass-market line, to avoid forcing this new, potentially high-profit product into an artificial and harmful competition with the mass-market products. Let them work as an independent unit within the corporation, benefiting from the planning tools of the giant company.

range for particular products. High-quality products can help trade up dollar sales and profits for the dealer too. They certainly trade up the store image.

But the corporation going into a quality frozen meat pie line should beware of its national sales organization when nurturing this product to its maturity. An experimental marketing group in charge of such a new product might do well to put on a fully qualified sales manager to work with food brokers rather than marry his new product's sales to any established national line.

In another field still, the successes of the Rolls Royce and Volkswagen on opposite price poles may well hold a moral for the American car manufacturer. There may be today a profit opportunity from the manufacture and sale to a special market of an American "Volkswagen" — a car that is not subject to style obsolescence. While such a car would never have the sales goal of the majors, it could very well carve out its own market. Some of its profit potential is indicated by the basic fact that the car would not require expensive retooling of machinery to accommodate style changes.

Regardless of the type of new product considered, under the "think small" concept, the giant manufacturer would do well to remember the fundamental premise:

Don't pass up the solid profit maker for big sales volume.

Don't spend millions in advertising until the newly planted seed has a chance to sprout — "think small" recognizes the limited market and structures all marketing efforts toward the limited group of consumers who want something "different" or "better" and are willing to pay for it. These people are often the "trendmakers," and in time the new luxuries desired by the few become the mass market sought by the many.

Among the merchandising ideas to be tested in the pilot project were the following:

1. A credit system
2. Home delivery
3. New approaches to children's shoe fitting and selling
4. Personalized mailing and telephone selling techniques based upon customer lists complete with size requirements, style preferences, age

L&M's interior designers planned the store with these merchandising aims in mind, and with the purpose of incorporating them into the over-all planning for traffic aisles, department location, self-service centers and also the over-all decor of the store.

The result: A brief two months after the store's opening, several of the merchandising concepts, proved successful from the time of its initiation, are already being tested in other Thom McAn outlets. Some of the design features, such as the L&M approach to self-service retailing, are currently being adapted for other stores and locations.

And, as Ed Gorman puts it: "There's little question but that we have in Towson upgraded the price range of the product compared with those normally sold in comparable outlets. For example, because of the display, more of our sales in men's shoes are in the higher-priced 'Bootmaker' category of shoes. Furthermore, we wanted to test self-service concepts in an atmosphere that did not connote discounting. This too has been achieved, as proved through our extra sale of handbags, hosiery, sneakers, slippers and socks."

L&M's approach: The designers developed a theme of early Americana around which the decor of the entire store was planned. (For details of the technique, see pages 8-9.) They departmentalized the store to insure the customers both privacy from intrusion of their children, and to provide them with an atmosphere conducive to making their planned-purchase selection.

While Thom McAn is already optimistic about the success of its pilot project despite the brief time that has elapsed since the Towson opening, management realizes that it cannot achieve comparable results in other outlets by merely transposing bodily the individual planning and design elements.

"Each outlet and location has its own problems," says Ed Gorman. "Our chain consists of three basic types of stores: (1) men's and boys' chain; (2) the family chain, numbering some 400 stores; and, of these, 100 are (3) highway stores. However, even within each of these categories, the needs for interiors planning and design differ sharply.

"We know, from our Towson experiment that part of its success is the excellent integration of the interior design into the mood and climate of the community where the store is located."

Store design for a chain, according to L&M, requires the combination of several approaches in order to achieve maximum effectiveness for the retailer:

First of all, it must be designed with each store's potential customers in mind, so that these customers will find the store attractive and also be comfortable and at ease in it. In other words, interior design must complement not conflict with the price range of the merchandise.

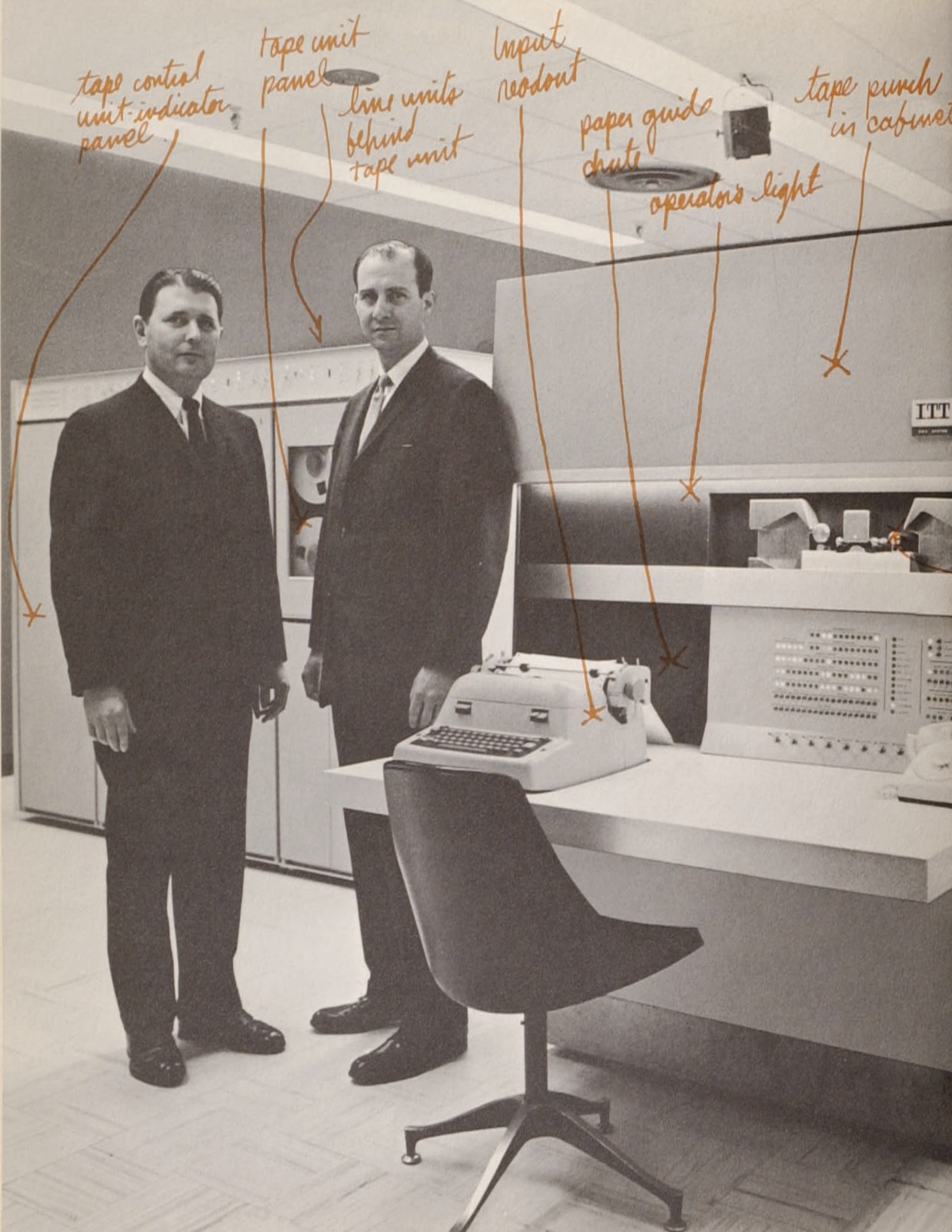
Secondly, the design has to be in tune with the tastes and characteristics of the community where the store or stores are located.

Ideally, in the case of a chain of retail outlets, each interior should reflect a sense and understanding of the whole chain to give each individual store the endorsement of being part of a larger merchandising complex.

Each department has its own design motif, but all are on an early American theme. The ladies' department thus conveys a greater look of leisure and elegance. The self-service counter where lower priced items are sold, is designed for heavy traffic and good service

Children, who, prior to departmental division of the store, became restless and interfered with adult sales, now play happily on the mock train in their own department, located between men's and women's areas

The men's department, isolated from women's and children's chatter, is decorated in a masculine style and theme. Thom McAn found that its decor encouraged sale of McAn's quality line, the higher-priced Bootmaker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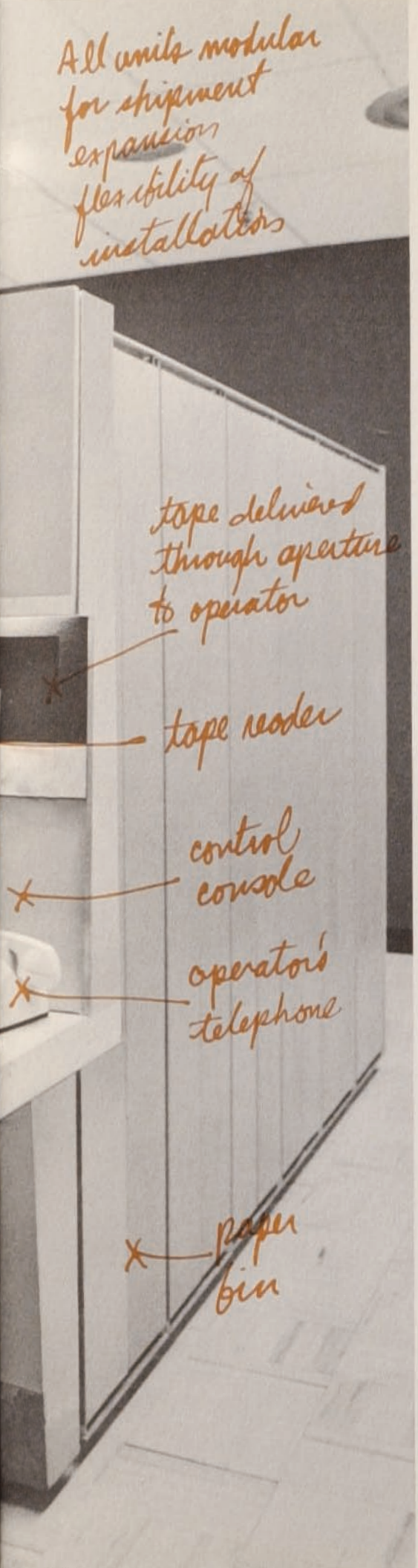
tape unit panel
line units behind tape unit
input readout
paper guide chute
operator's light
tape punch in cabinet
ITT



The new ITT ADX System had engineering perfection without "consumer" direction before the marketing-conscious team (r. and l.) President Alfred di Scipio and Vice President Leo C. Murphy Jr. headed the division in fall 1961. They brought in L&M to style the new computer, devise functional, consumer-oriented improvements

HOW ITT'S MULTI-MILLION ADX EQUIPMENT WENT TO MARKET

How can a manufacturer build sales appeal into electronic equipment with price tags ranging from $1 million to $3 million?

The International Telephone & Telegraph Corporation, which recently emerged in the crowded field of business automation, found the answer to this question. In a rapid move made possible because of ITT's vast experience in the total electronics field, ITT established, in September 1961, its new ITT Information Systems Division, with the announcement that the firm had created and manufactured a new, fully developed electronic computer system (the ITT 7300 ADX Automatic Data Exchange, or ADX System), designed specifically and sold exclusively for telecommunications.

It is no coincidence that this new ITT division is headed up by a man, barely in his mid-thirties, with background not in engineering but in modern management techniques: In the competitive electronics field, the challenge to Alfred di Scipio's organization is considerable. Every major U.S. manufacturer with experience in business machinery and electronic computer production has plunged feet-first into this tempting field.

The result: An intensive competition unparalleled in the contemporary American marketing world.

In order to meet this competition head-on in the computer manufacturing business, di Scipio began to research and analyze the new market to determine what kind of product would best suit its needs.

"There was need for a marriage," he says. "Engineers had to be oriented to market demands; marketing people, to engineering ideas."

He chose Leo C. Murphy, Jr. to head up the marketing effort; Robert Hughes and John Ackley, seasoned ITT engineers, to head up research and development operations for the ADX System.

The product in existence at the time, he felt, was designed with excellent engineering features, but with little regard for the "consumer." At this stage, early in May 1961, Lippincott & Margulies, Inc. was called in to reevaluate, redesign and style this ADX 7300 System according to the results of the market surveys that provided guidelines.

The L&M project team divided the equipment into three separate design projects to produce a highly functional management tool which combined usefulness with distinctive styling. These were the basic components of the ADX System which Lippincott & Margulies, Inc. designed and developed:

1. The cabinetry for the individual line units, accommodating 32 simultaneous in- and out-going calls, with their complex of engineering components

2. The display and storage cabinet for the magnetic tape unit

3. The cabinet and control console for the multiplexed message processor (MMP)

These designs had to be created with a full understanding of the management functions and "consumer" promises to be fulfilled by the ADX System. Both the usefulness of this high-speed electronic equipment and its high price had determined that the sales target would be top corporate management.

L&M designed the equipment with these criteria in mind. The cabinetry, which combines peak efficiency with attractiveness, projects the image of precision machine-computing through compact housing for the line units plus simplicity of design. L&M also developed a new and distinctive concept for the control console, which now includes a more functionally-designed electronic alarm panel demonstrating to the computer operator even when at a distance from the console, when and where any type of communication problem might be developing.

L&M's account manager on the ITT project whose function it was to coordinate all marketing planning from corporate goals to advertising strategy with the design principles, summarizes one innovation this way: "We wanted some very important display elements on the control console to achieve a number of ADX System marketing objectives: First of all, the display element had to serve that vital function of relating upon quick glance what the nature of the problem flashing on the board might be. This saves the operator's time in locating the problem area.

"However, we also felt that the unit should be designed to permit individualizing and custom-designing for each installation, depending upon the ITT customer's needs, business and requirements. This has been achieved by a series of modular panels including an alarm panel, line panels and a system display board. These can be arranged within the expandable console cabinetry to meet these individual needs plus those of manufacture and field installation."

The importance of design which allows for individualizing of the equipment is further underscored with a look at the ADX System's market: any organization that has record communication system needs, from airlines to Government.

"Product design is extremely important in such a competitive and high capital investment business," di Scipio told DESIGN SENSE. "Today, one of the first things that our potential customers say when they see our showroom is 'This is really good-looking equipment.' They are impressed by the practicality and efficiency of various design features and their appearance as much as they are by the engineering excellence of the ITT 7300 ADX System.

"The design is an important factor in closing any sale in such a high price range. If it is good, it does not provide any excuse for hesitation from the appearance and industrial design viewpoint. In other words the right design appearance reinforces the image of excellence in engineering and electronics design."

ITT's 7300 ADX System has achieved this objective, as indicated by the rapid sale of the equipment. Among the earliest sales was the Paris installation in December 1961 of the ADX System in the American Embassy, purchased by the U.S. State Department.

"We find that the design and the attractiveness of this multi-million dollar equipment is a definite factor in helping sales. This ITT ADX System has been styled and designed to be most functional. Our customers see this rapidly."

Alfred di Scipio, president

If you have missed any of these issues of Design Sense, please write us with your request for past copies:

DESIGN SENSE 16 – Revolution in the Marketplace

DESIGN SENSE 18 – Design for World Markets

DESIGN SENSE 19 – Design for Systems Marketing

DESIGN SENSE 20 – A New Approach to Product Planning

DESIGN SENSE 22 – Advertising and Total Marketing

DESIGN SENSE 23 – The Marketing Concept Package

DESIGN SENSE 24 – The Name's the Thing

DESIGN SENSE 25 – Communication Pitfalls of Mergers
Launching a New Nescafé Package

DESIGN SENSE 26 – How Major Companies Change Names
Centripetal Marketing
Why Ohio Oil Became Marathon

LIPPINCOTT & MARGULIES, INC., INDUSTRIAL DESIGNERS AND MARKETING CONSULTANTS, 430 PARK AVENUE, NEW YORK 22, NEW YORK

LIPPINCOTT & MARGULIES, LTD., 481 UNIVERSITY AVENUE, TORONTO, ONTARIO, CANADA